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Purpose

The Local Government Finance Commission is following up its conference on September 26 and 27 with eleven regional meetings in different parts of Saskatchewan. The Commission hopes to hear from a large number of local governments, individuals and interest groups at these regional meetings, either in the form of written briefs, oral presentations or discussions with the Commission.

The purpose of this paper is to assist those participating in the regional meetings by setting out some issues that are of particular interest to the Commission.

Background

The Local Government Finance Commission was established by the Province in May, 1984 to review and to outline options for changes concerning a broad range of local government financing issues. The Commission is established under *The Public Inquiries Act* and is independent of the provincial government. It is expected that the Commission will issue an interim report before the end of 1984 and a final report before June 30, 1986.

The members of the Commission are:

- Ray Clayton, formerly Deputy Minister of Urban Affairs and Deputy Minister of Education, is the full-time chairman.
- Don Rowlatt, Associate Deputy Minister of Finance, is the vice-chairman.
- Ted Brady, past president of the Saskatchewan Urban Municipalities Association and past president of the Federation of Canadian Municipalities, representing S.U.M.A.
- Ike Thiessen, vice president of the Saskatchewan Association of Rural Municipalities, representing S.A.R.M.
- Nick Volk, past president of the Saskatchewan School Trustees Association, representing S.S.T.A.
- Florence Eileen (Lol) O'Shaughnessy, (member-at-large).
- Herve Langlois, Deputy Director of Education, Saskatoon Board of Education, (member-at-large).
- Bob Linner, Prince Albert City Commissioner, (member-at-large).

Briefs

Interested organizations and individuals are invited to present briefs or give an oral presentation to the Commission at the regional meetings.

Anyone is also welcome to come just to listen or to ask questions and engage in the discussions.

If you plan to present a written brief or oral presentation, the Commission would appreciate being advised of which regional meeting you plan to attend. Please write or telephone the Local Government Finance Commission at:

Telephone:

566-9512 in Regina; or

Write:

Local Government Finance Commission
Room 322
3211 Albert Street
Regina, Saskatchewan
S4S 5W6

Schedule of Regional Meetings

October 18, 1984
Kindersley — Elks Hall

October 19
Swift Current — Hillcrest Hotel

October 24
Yorkton — Holiday Inn

October 25
Estevan — Legion Hall

October 26
Assiniboia — Elks Club

November 1, 1984
Regina — Sheraton Center

November 7
North Battleford — Wesley Third Avenue United Church

November 8
Prince Albert — Sheraton Marlboro

November 9
La Ronge — Legion Hall

November 14
Tisdale — Civic Center

November 15
Saskatoon — City Hall

All regional meetings will begin at 10:00 a.m.

The Issues

The following pages set out some issues, divided into two sections: 1) General Issues; 2) Some Specific Issues and Options.

The Commission would be interested in receiving views and opinions on some or all of these issues or on other issues or options which participants at the regional meetings consider relevant to the financing of local government.

General Issues

The financing of local government has evolved over time in response to changing requirements. An assessment of the current financial status of local governments and the consideration of improvements for the future should include an examination of a number of fundamental issues. The Commission asks that interested parties address the following general issues:

Taxes Paid and Services Received by Taxpayers

Interested parties should consider the level of services received by taxpayers from local governments and their ability and willingness to pay for those services through all of the various taxes they pay. What are the limits on the taxpayer's ability to pay for these services? Is there a direct link between the level of services received by or available to a taxpayer and the taxes paid?

Program Responsibilities and Fiscal Capacity of Local Governments

Interested parties should consider the relationship between program responsibilities and the ability of local governments to pay for these programs. In particular, what is the nature and extent of the financial requirements facing local governments? Local government organizations should outline the programs and services local governments provide and those they believe that should or should not be provided by local governments. What needs are not being met? What priority should be placed on various programs? To what extent is there equity between taxpayers in terms of access to a similar level of service?

Are there limits on provincial and local governments' ability to finance these programs, considering various sources of financing such as property taxes, grants, external borrowing and user charges? To what extent can more use be made of any of these or other financing sources?

Autonomy and Accountability

Consideration should be given to the importance of autonomy and accountability for local governments. What is meant by autonomy and accountability in the local government context? Which programs require a higher degree of local autonomy in the delivery of the program in order to ensure that programs are responsive to differing needs in different communities?

How do various funding sources available to local governments enhance or reduce their autonomy? Is direct control of the funding source essential to local authority over programs?

To what extent should local autonomy over programs be linked to financial responsibility for the funds needed to pay for those programs? Is financial responsibility lessened when one government body collects the funds and another spends the funds? To whom are local governments accountable for the various revenue sources available to them? Since taxpayers pay different types of taxes to provincial and local governments, whom do they hold accountable for each type of tax paid and for the services received? What is the nature of the accountability of local governments for various funding sources? Are there ways of improving accountability for each funding source?

Do the current financial arrangements adequately encourage local governments to set priorities and undertake long-term planning? Do some sources of funding lessen or distort priority-setting by local governments? Are there structural impediments to autonomy and accountability in any of the revenue sources available to local governments?

Access to Services and Equity of Revenue Sources

Equity of tax sources involves an examination of who receives services and

who pays for those services. To what extent should there be a direct link between the use of a service and the payment for that service? What is the relationship between accessibility to services and ability to pay for services? What are the most equitable tax bases for the provision of local services? What are the distributional effects on taxpayers of various sources? Equity also involves the structure of the revenue sources. For various revenue sources, is there equity between taxpayers in terms of the burden of taxation and how can equity be enhanced? Are there structural impediments to achieving equity in various tax sources?

Availability and Administration of Revenue Sources

Interested parties should consider the availability of various revenue sources that might be used by them and the administration aspects of each source.

To what extent are the various revenue sources available to local governments an efficient way of raising funds?

In looking at efficiency of revenue sources, interested parties should consider the administration of the taxes or other revenue sources and how this could be enhanced; the taxpayer's ability to understand the tax or revenue source and relate it to services received; and the duplication of services or program delivery.

Structural Considerations

In considering local government financing issues, participants should look beyond current program and organizational arrangements. Are there changes which could be made to improve the effectiveness and efficiency of these programs and organizational arrangements? What would be the advantages and disadvantages of such changes?

Is there a need for redistributing responsibilities between local and provincial government levels? Are there entirely new approaches to the raising of revenues for local purposes which should be considered?

Some Specific Issues and Options

Capital Funding

1. What is the nature and magnitude of future capital requirements of rural and urban municipalities and school divisions?

2. What is the desirable ratio of provincial-local sharing of the costs of capital? What principles should govern this matter?

3. In regard to the local share of capital costs, what are the appropriate proportions of current revenue contributions and capital borrowing? What are the long-term implications of different proportions?

4. What is the appropriate degree of autonomy for local governments to have in regard to capital expenditure decisions and the financing of those capital expenditures? Are changes required in regard to current practice?

5. What is the impact of government capital programs on long-term planning, priority-setting and the exploration of options, including alternatives to new construction, at the local level? Would it be desirable to make changes in capital programs in this regard?

6. Are provincial capital programs compatible with the ability of local governments to finance the ongoing operating and maintenance of new facilities?

7. To whom should local governments be accountable for the capital funds they receive from the provincial government?

8. Is there an appropriate balance between provincial operating grants and capital grants? Would there be merit in shifting monies from one to the other?

9. With particular regard to urban municipalities, would there be merit in rolling in a number of separate capital programs into a single overall capital pool, or would it be preferable to maintain the present arrangement?

10. With regard to the financing of major school capital projects, what is the degree of incentive for school boards to group a number of projects into one year, instead of spreading the projects out over a period of years? Is there a significant problem in this respect?

11. With regard to rural municipalities, are expenditures on road and bridge construction appropriately classified as operating rather than capital expenditures? Should rural revenue sharing be split into separate funds for operating and capital? Do rural municipalities have capital needs in areas for which provincial assistance is not currently provided?

12. In what ways do the responses to the above-noted issues and options appropriately differ in regard to Northern Saskatchewan? Are there additional issues or questions that should be raised with specific reference to Northern Saskatchewan?

Operating Funding

Rural and Urban Revenue Sharing

1. Are the fundamental principles and objectives under which revenue sharing was initially established still valid? Are there other principles and objectives which should now apply in this regard?

2. Should the total amount of provincial monies distributed through revenue sharing each year be determined by an escalator formula or should the amount be determined through the regular processes the provincial government uses each year to determine expenditure levels on other programs?

   If an escalator is preferred, what are the desirable characteristics of an escalator formula? Are there specific suggestions for a new escalator formula?

3. One of the objectives for introducing revenue sharing was to promote local autonomy and provide for greater simplicity of administration by rolling a number of discrete programs into an overall revenue sharing pool. Have those objectives been achieved? Could greater local autonomy and efficiency of administration be promoted by rolling additional programs into revenue sharing?

4. When referring to municipal government, what is meant by local autonomy? What are the specific components of that autonomy and from where is it derived? What is the level of importance of that autonomy? How would that autonomy be affected by any of the options for different provincial operating payments to municipalities which have been identified?

5. To whom should municipalities be accountable for the funds they receive under revenue sharing?

6. Are there viable options to supplement or possibly replace revenue sharing, such as tax base sharing, dedicated taxes, another form of locally-raised taxes or a different system of paying provincial grants? What are the advantages and disadvantages of such options?

7. What are the principles which should govern the formulas used to distribute the revenue sharing pools among the municipalities? What are the relative weightings that should be given to such principles? Could equity be improved by changes to the formulas?

8. What is the appropriate balance between conditional and unconditional payments under revenue sharing?

9. Is there an appropriate level of incentive built into revenue sharing for municipalities to provide services to their residents through inter-municipal co-operation?

10. Should revenue sharing be eliminated or reduced as a trade-off against a program to reduce or eliminate the school property tax? What are the implications of these options?

11. In what ways do the responses to the above-noted issues and options appropriately differ in regard to Northern Saskatchewan? Are there additional issues or questions that should be raised with specific reference to Northern Saskatchewan?

Financing Elementary and Secondary Education

1. To whom should school divisions be accountable for funds transferred to them by the province? Is there sufficient accountability on the part of school boards for monies transferred from the province and monies collected through the local property taxes?

2. What is meant by local autonomy for school divisions? What are the specific components of that autonomy and from where is it derived? Is it derived from provincial legislation, the nature of the provincial funding structure or from having access to a local source of revenue? What is the level of importance of that autonomy? How would the autonomy of school divisions be affected by each of the options identified under #5 below?

3. To what extent should school boards have taxing authority? Are there legal or constitutional restraints to the removal of local taxing authority from school divisions?

4. Are there local sources of revenue which could be made available to school divisions other than the property tax and what are the advantages and disadvantages of such other sources?

5. From time to time, the following options have been identified regarding the financing of elementary and secondary education:

   a) The local share of education costs could be increased by either further increases in the property tax or by the levying of another form of local taxation.

   b) The present system and the respective shares of provincial grants and local property tax could be maintained.

   c) The present share of costs covered by provincial grants could be maintained, but the school property tax could be reduced or limited in its growth by instituting an alternative form of local taxation.

   d) The local property tax portion could be reduced through an expansion of taxes collected by the province and paid to school divisions as grants.

   e) The current shares of costs covered by the local property tax and direct provincial grants to school divisions could be maintained, but the property tax load could be alleviated or eliminated for certain classes of property owners through an expanded and refocussed rebate program aimed specifically at education.

   f) A combination of d) and e), (increased grants to schools, plus expanded and refocussed rebates) could be used to alleviate the local property tax load.

   g) A provincially-determined standard of education expenditures could be completely funded by taxes collected by the province, except that boards of education would be allowed to levy supplementary levies on the local property tax:

      — at the total discretion of the school board

      or

      — subject to the approval of the municipal council(s)

      or

      — subject to ratification through referendum.

   h) A provincially-determined standard of education expenditures could be completely funded by taxes collected by the province with no possibility for school property taxes or supplementary levies.

   i) Education could be funded 100% by taxes collected by the province through the provision of vouchers to individual families which would, in turn, purchase educational services from public school divisions or private schools.

   Are there other options? What are the implications of those options, including cost, impact on accountability and responsibility, the quality of school services, the level of expenditure by school divisions and municipalities, and the overall tax load faced by the public?

6. If a greater proportion of school costs were covered by taxes collected at the provincial level and paid to school divisions as grants, what would the impact be in terms of the level of spending by municipalities and the overall level of local taxation? Specifically, if school divisions were to vacate the local property tax in whole or in part, would there be a corresponding increase in the municipal portion of the property tax? What would be the overall effect in terms of taxes paid by the public at the combined local and provincial level?

7. If a greater proportion of school costs were to be covered by the province, how should this be financed?

   a) Increased provincial taxes? If so, which taxes and by how much should those tax rates be increased? What would be the implications of increasing those taxes?

   b) Reduction or elimination of other provincial programs? What programs and by how much? What would be the implications?

   c) Deficit financing?

8. In what ways do the responses to the above-noted issues and options appropriately differ in regard to Northern Saskatchewan? Are there additional issues or questions that should be raised with specific reference to Northern Saskatchewan?

Property Tax Rebates

1. What role do property tax rebates currently play in the financing of local government?

2. How well is the purpose of the program understood by the public? Is the program administered efficiently? Could the program be simplified?

3. Would there be merit in eliminating all or part of the current rebate programs, either as a straight elimination or as a trade-off against new programs or expanded existing programs such as grants to municipalities or school boards?

4. Would there be merit in income testing the rebates either as a Saskatchewan-operated system or as a system incorporated into the federal income tax administration?

5. Should the current program or a possible restructured rebate program be locally administered?

6. How do provincial rebates impact on local accountability, responsibility, and autonomy compared with provincial grants to schools and municipalities?

7. Should the rebates be identified with or calculated on the basis of a specific category of property taxes?

8. Would there be merit in an expanded and refocussed rebate system designed specifically to reduce or eliminate the school property tax for certain categories of taxpayers?

The Property Tax and Its Structure

1. Are property taxes disproportionately high in Saskatchewan relative to other provinces?

2. How much does the property reassessment process have to do with negative feelings about the property tax? How could the reassessment process be improved and what impact is this likely to have on the public perception of the property tax?

3. Are other taxes more appropriate to fund some of the services currently paid for out of the property tax?

4. What are the merits of restructuring the property tax such as:

   — the use of variable mill rates?

   — commercial/industrial tax base sharing?

   — changes to or the elimination of the business tax?

   — changes in the relative weighting between land and improvements, or other changes in assessment criteria?

   — tying assessments more closely to market values?

5. What are the implications of having municipalities and school boards collect their own property taxes, from the standpoint of accountability and efficiency? Should there be a separate property tax collection agency for all property taxes?

6. Should changes be made in the way in which tax abatements are handled? Should mechanisms be developed to involve school divisions in decisions on the education portion of the abatement?

Health Funding

1. To what extent should local governments be responsible for the delivery, financing, and level of hospital and other health care services?

2. To what extent should the Hospital Revenue Tax and the Public Health Levy finance the related hospital and health care program costs?

3. Should the hospital revenue tax be tied to the hospital levies charged in union hospital districts?

4. What are the implications on local autonomy and accountability of alternative ways of financing hospitals and health care programs?

Library Funding

1. To what extent should municipal governments be responsible for the delivery, financing, and level of library services?

2. What are the implications on local autonomy and accountability of alternative ways of financing libraries?

3. What are the implications of the differences in funding arrangements between regional and municipal libraries and between various regional libraries?

4. Are regional library boards held accountable for the monies they receive from municipal governments? To whom are they accountable? To whom should they be accountable?

For More Detailed Information

A limited number of copies of a background paper with statistical data and program descriptions are available from the Commission.

Additional copies of this booklet are also available.

Notes

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Options for the Future

Issues and Options for Funding Local Government